B2B TRUST

Annual Report 2001

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Financial Highlights

(in thousands of dollars, except per share amounts) October 31	2001	2000
PER COMMON SHARE		
Net income		
Basic	$ 0.99	$ 0.85
Diluted	$ 0.99	$ 0.85
Book value	$ 6.68	$ 9.42
Share price		
High	$ 9.40	$ —
Low	$ 6.95	$ —
Close	$ 7.50	$ —
Number of common shares outstanding (in thousands)		
Average	20,623	18,450
End of period	24,844	18,450
Market to book value	112 %	— %
EARNINGS		
Total revenue [1]	$ 73,650	$ 67,063
Net income available to common shareholders	$ 20,461	$ 15,689
Non-interest income		
As a % of total revenue [1]	23.1 %	20.1 %
As a % of average assets	0.73 %	0.63 %
Return on average assets	0.88 %	0.74 %
Efficiency ratio		
Non-interest expenses as a % of total revenue [1]	47.8 %	55.7 %
Return on common shareholders' equity	14.2 %	11.2 %
BALANCE SHEET ASSETS AND ASSETS UNDER ADMINISTRATION		
Balance sheet assets	$ 2,481,855	$ 2,293,680
Cash resources and securities	$ 466,322	$ 504,835
Loans	$ 1,958,601	$ 1,758,387
Deposits	$ 2,097,462	$ 1,975,976
Assets under administration	$ 5,274,903	$ 6,289,636
Cash resources and securities		
As a % of balance sheet asset	18.8 %	22.0 %

October 31	**2001**	2000
QUALITY OF ASSETS		
Net impaired loans		
As a % of personal loans	0.01 %	(0.06) %
Allowances for credit losses	$ 1,618	$ 1,150
As a % of gross impaired loans	91 %	221 %
As a % of personal loans	0.15 %	0.11 %
CAPITALIZATION		
Shareholders' equity and subordinated indebtedness	$ 225,849	$ 173,767
Tier 1 capital ratio	13.3 %	14.4 %
Total capital ratio	18.2 %	14.4 %
OTHER INFORMATION		
Number of full-time equivalent employees	239	225
Independent Financial Advisors	10,000	10,000

(1) *On a taxable equivalent basis.*


people
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Message to Shareholders

B2B Trust is proud to present the annual report that marks its first fiscal year as a public company.

In the last few years, the Canadian financial sector has orchestrated significant changes to keep apace with a constantly evolving social and economic environment. Globalization has brought new competitors into Canadian financial markets. Deregulation is redefining the traditional sectors of the industry. Changing demographics have given rise to a growing demand for financial services from more sophisticated consumers. Information technology, notably the Internet, has fuelled that demand and allowed for the emergence of new distribution channels.

These far-reaching trends are fostering the development of new business models in the design and distribution of financial products and services, as well as the expansion of markets for non-bank institutions and other industry players such as independent financial advisors, and even large scale retailers.

B2B Trust activities, first initiated by the Laurentian Bank in 1996 as an agency banking business line, have steadily grown and expanded in-line with, and often at the forefront of, these trends. The development and fine-tuning of state-of-the-art, innovative technological platforms has been particularly instrumental in allowing B2B Trust to meet the demands of its financial partners and their customers for more flexible, customized and sophisticated products and services.

A successful year

B2B Trust went public during fiscal 2001 and, despite a challenging initial public offering market, its offer of 6.4 million common shares at $9.00 a share was oversubscribed, giving it sufficient capital to continue its expansion program and seize new opportunities with non-bank financial institutions and large scale retailers across Canada.

This continued growth and expansion has produced strong results, and B2B Trust is very pleased with its financial performance in fiscal 2001.

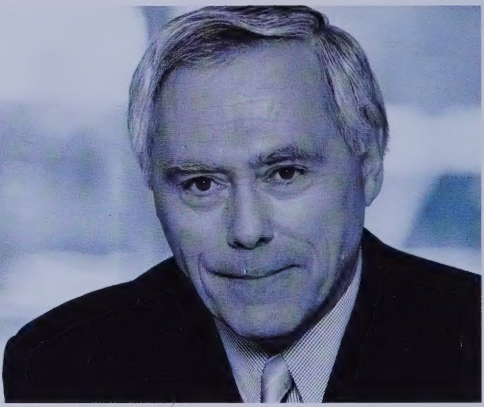
Net income of $20.5 million or $0.99 per common share was reported for the year ended October 31, 2001, compared to $15.7 million or $0.85 per share in 2000. The company's healthy profitability during the year was attributable to strong net interest income and enhanced operating efficiency.

B2B Trust is very pleased to underline the fact that these results largely ensue from the dedication and hard work of all its employees. Throughout 2001, in particular, they have invested a great deal of energy and resources in the successful completion of several important initiatives, and it is our pleasure to commend them on their unique contribution.

Indeed, while the successful completion of the initial public offering can be justly considered the highlight of 2001, the conclusion of new strategic partnerships and the introduction of innovative products and services are crucial to enhancing the company's productivity and profitability prospects.

An eventful year

In June 2001, B2B Trust launched a new generic line of banking products and services that are distributed by independent financial advisors. *Advisor's Choice* features a high-yield savings account, a chequing account with a banking package, a line of credit, a debit card, access to a transactional website and telebanking services.



***Henri-Paul Rousseau** President and Chief Executive Officer* • ***Jean Bazin** Chairman of the Board*

Throughout 2001, B2B Trust established a number of partnership agreements with leading non-bank institutions, thereby consolidating its position as a leading provider of innovative banking and financial services.

The Canadian Association of Mutual Insurance Companies, serving 1.5 million policyholders, and Capital Teraxis, a mutual fund dealer comprised of 750 financial advisors, both chose B2B Trust as their exclusive provider of a range of financial products, such as chequing and savings accounts, credit cards, personal and mortgage loans.

B2B Trust became the exclusive supplier of a private-branded investment loan program for AIC Limited, one of Canada's largest mutual fund companies. B2B Trust also entered in an agreement with the Cartier Partners Financial Group to offer a range of private label products through Cartier's 3,500 advisors who make up the largest independent financial advisors network in Canada.

Charles Schwab Canada, Co., the world's largest discount broker, called upon B2B Trust to develop a range of banking and financial products for its Canadian operations. Three months later, Schwab Canada was able to launch *SchwabOne*, complementing its comprehensive online brokerage, advisory and portfolio management services with a powerful banking products offering.

In October 2001, B2B Trust's parent company, Laurentian Bank, launched a pilot program bringing B2B Trust's innovative banking technology to 50 Canada Post outlets in communities across the country. B2B Trust's deposit brokers, as well as Laurentian Bank's customers, can now make and authenticate deposits through a larger number of points of service.

A promising outlook

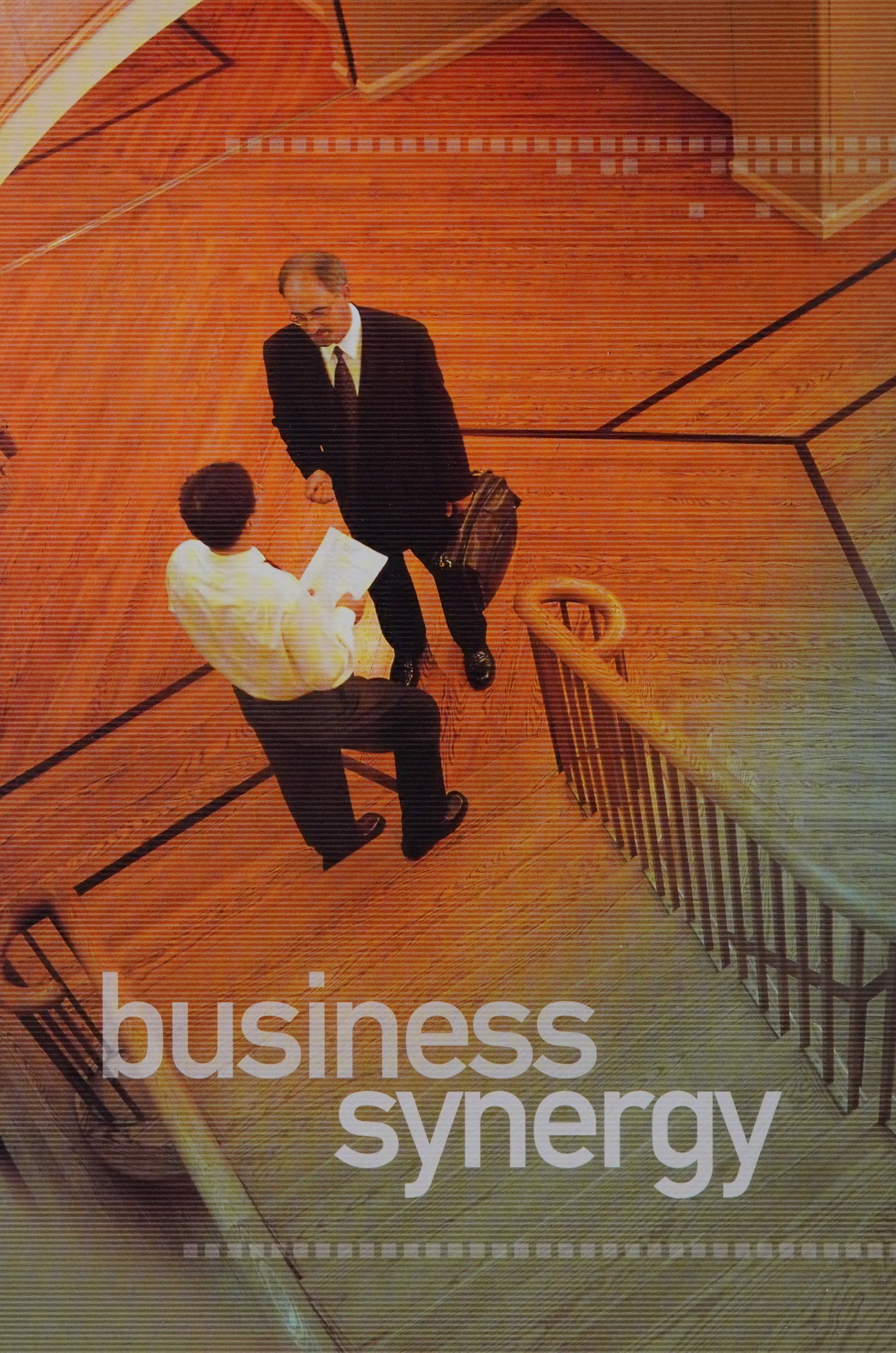
At the close of its first fiscal year as a public company, B2B Trust stands out as a leader in supplying financial products and services to non-bank institutions and independent financial advisors. B2B Trust is also well positioned for growth. The successful completion of the initial public offering has provided the capital required to grow its business and pursue its strategic goals.

With a strong capital base, niche market strategy and an experienced management team, B2B Trust is ready to leverage the growth associated with several key new alliances made during the year and to pursue additional future partnerships.

As these strategic partnerships gain momentum, with the economic recovery forecast for 2002, and as capital market activity revives in consequence, B2B Trust should continue to experience strong growth in its various lines of business.

Henri-Paul Rousseau
President and Chief Executive Officer

Jean Bazin
Chairman of the Board


business
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Report on Operations

During fiscal 2001, B2B Trust consolidated its capital base through a successful initial public offering, and continues to implement and develop the necessary technologies, processes and strategic alliances to accelerate its growth in the years to come.

Bernard Piché *Co-Chief Operating Officer and Chief Financial Officer •* ***Henri-Paul Rousseau*** *President and Chief Executive Officer •* ***Michel Pelletier*** *Co-Chief Operating Officer*

Accelerating the growth of its core business

B2B Trust's core business is serving Canada's growing number of independent financial advisors ("IFAs"), including life insurance brokers, mutual fund dealer representatives and deposit brokers. B2B Trust's focus on IFAs is part of its heritage. B2B Trust activities originated in 1996, when its parent corporation and majority shareholder, Laurentian Bank, created a new line of business, agency banking, to provide banking products and services to IFAs.

B2B Trust now serves a third of all independent financial advisors in Canada

B2B Trust serves a client base of 10,000 IFAs – a third of all IFAs in Canada –, enabling them to market a wide variety of customized financial products and services to their clients. IFAs also enjoy privileged access to financial services, including transactional Web capabilities, through *www.Natlink.com*, which gives them free real-time access to their clients' self-directed and investment loan accounts. IFAs can thus provide up-to-the-minute consultation and transactional services.

B2B Trust thus plays an important role in strengthening the IFAs' relationships with their own customers by helping them provide prompt and highly personalized services.

At the same time, B2B Trust is accelerating the growth of its new business. For example: in June 2001, in keeping with this strategy, B2B Trust launched *Advisor's Choice*, a comprehensive line of banking products that will enable the company to expand its customer base. *Advisor's Choice* features a high-yield savings account, chequing account with banking package, a line of credit, debit card, as well as access to a transactional website and telebanking services.

Forging strategic alliances

B2B Trust has also positioned itself as a wholesaler of payment, credit, and investment products and services to non-bank financial institutions and large scale retailers using their own brand name, known as "white labelling."

Accordingly, a key component of B2B Trust's business strategy is the creation and development of alliances with prominent financial and retail partners. Through B2B Trust's offering, these partners can thus reinforce their existing customer relationships, broaden awareness for their brand name products and create new revenue channels without incurring significant costs.

B2B Trust's partnership with Charles Schwab Canada, Co., the country's only full-choice brokerage firm, is undoubtedly one of the company's significant achievements of 2001. In August, B2B Trust signed an agreement with Schwab Canada to develop a range of banking and financial products to complement its online brokerage's investment and trading product lines.

Three months later, Schwab Canada announced the launch of *SchwabOne*, a highly integrated package of online brokerage, advisory and portfolio management services. The *SchwabOne* account is unsurpassed in convenience and flexibility, offering chequing privileges, a debit card, a Platinum VISA Card with rewards privileges, bill payment, Internet and telebanking services – in addition to Schwab's brokerage services.

Through this initiative, B2B Trust is enabling Schwab Canada to provide total turnkey service in record time for one of the most respected brands in the financial services sector, and to remain at the forefront of online brokerage technology and services.

'B2B Trust was much simpler to work with than other providers. They had the infrastructure that others didn't and they were good at tailoring products to suit our needs.'

Paul Bates, President and Chief Executive Officer
Charles Schwab Canada, Co.

During 2001, B2B Trust announced several other partnership agreements that will enable non-bank financial institutions to provide an increasingly sophisticated level of banking services, and that will consolidate B2B Trust's position as a leading provider of banking and other financial services to large segments of the Canadian financial services industry.

In January 2001, the Canadian Association of Mutual Insurance Companies (CAMIC) designated B2B Trust its exclusive provider of banking services such as chequing and savings accounts, credit cards, as well as personal and mortgage loans. CAMIC's member companies serve 1.5 million policyholders, underwrite \$1.2 billion in premiums and hold \$1.9 billion in policyholder assets.

In February 2001, B2B Trust became the exclusive provider of a range of financial services to Capital Teraxis, one of Quebec's largest mutual fund dealers, comprised of 750 financial advisors who distribute mutual funds and insurance products and offer portfolio management services.

In May 2001, B2B Trust became the exclusive supplier of a private-brand investment loans program for AIC Limited, one of Canada's largest mutual fund companies. AIC customers across Canada can now borrow money in order to invest in AIC's mutual funds. These loan products are sold through AIC's distribution network.

In June 2001, B2B Trust entered into an agreement with the Cartier Partners Financial Group to offer a range of private label products through Cartier's 3,500 advisors, who make up the largest independent financial advisor network in Canada. Beginning with a Cartier chequing account available to clients with assets in the Cartier Money Market Fund, the agreement also calls for B2B Trust to offer investment loans and RRSP loans to Cartier clients.

At the beginning of fiscal 2002, Standard Life Assurance Company announced the launching in partnership with B2B Trust of an RSP loan program that will be marketed through its distributors under the Standard Life brand.

During the same period, B2B Trust entered into a similar agreement with Sun Life Assurance Company of Canada, a member of the Sun Life Financial group of companies, that will be marketing and distributing a new "generation" of segregated funds loans under its own brand name.

Enhancing technology: a client-centred approach and a competitive advantage

As Canada's first wholesaler of financial products and services, B2B Trust technology must be extremely efficient and reliable in order to maximize the confidence of its customers and in turn, of *their* customers. During 2001, B2B Trust has pursued the development and fine-tuning of the technology platform it uses and applications – including its IFA-dedicated website, *www.Natlink.com* – in keeping with its determination to meet the varied needs of its clients.

Rave reviews for B2B Trust's technology platform

B2B Trust uses application technology based on the platforms developed by Laurentian Bank under a long-term service agreement whereby B2B Trust can develop new technologies for its own and its customers' use.

What sets this technology apart is not just its reliability, but its flexibility. Laurentian Bank's open concept system allows parameters to be changed easily and tailored to meet the requirements of each customer.

Indeed, B2B Trust's partners are highly impressed with the technology at their disposal – along with the customer retention and development opportunities it fosters. AIC Limited Chief Operating Officer Stephen Griggs considers that "B2B Trust is able to offer our clients a much more flexible and attractive loan program than other lenders and has done a good job of administering the program." Jean Morissette, Managing Director of Cartier Mutual Funds, is pleased that "there isn't a lot of paperwork and the turnaround time is very quick" when it comes to processing investment and RRSP loans.

During 2001, B2B Trust and Laurentian Bank won significant industry recognition for the quality of their technology. In June, B2B Trust's unique technology infrastructure earned Laurentian Bank the 2001 Octas Award from the Fédération de l'informatique du Québec in the Business Solutions category. In November, the Laurentian Bank won an Award of Excellence from the Canadian Information Productivity Awards, again for the technological development of B2B Trust.

During the same period, Laurentian Bank's website was ranked second among 14 Canadian banks in the Internet Banking survey by Gomez, a renowned evaluator of North American websites. Laurentian Bank won high marks for its telephone and e-mail customer service, along with its information services for savers and borrowers. Laurentian Bank was ranked third overall in the 2000 survey.

The competitive advantages of B2B Trust's award-winning technology and, more importantly, its client-centred approach, were further consolidated in 2001 when B2B Trust partnered with the largest retail network in Canada, Canada Post Corporation, to test-market a package of basic financial services to B2B Trust's customers and Laurentian Bank's clients.

After a successful trial phase, Canada Post announced in October that it would introduce B2B Trust's innovative banking technology at 50 postal outlets across the country. Postal employees at these locations are trained to handle deposits and change debit card personal identification number (PIN) codes. This initiative offers B2B Trust and Laurentian Bank another banking channel, and expands the range of services offered by Canada Post well beyond traditional postal services. The B2B Trust/Canada Post agreement could see this initial menu of services expand from 50 postal outlets to up to 1,000 over the next several years.

"We're pleased to work with such a forward-thinking and innovative partner as B2B Trust."

André Ouellet, President and Chief Executive Officer
Canada Post

The Canada Post initiative is a prelude to future partnerships with other large retailers and utilities companies eager to market more services to their customer bases, and that want to enhance the value of their brand by using goodwill in one sector to create new revenue streams in others.

The year 2001 marked a significant turning point for B2B Trust. The success of its IPO validated the company's mission and business plan. In addition, a number of factors – the number of IFAs using B2B Trust's services, the significant number of strategic alliances signed, and the company's increasing ability to offer new and sophisticated products through its state-of-the-art technology – all contributed to the company's growth in 2001.

Today, B2B Trust is poised to achieve even more dynamic growth in the years ahead.

Michel Pelletier
Co-Chief Operating Officer of B2B Trust

Bernard Piché
Co-Chief Operating Officer and Chief Financial Officer of B2B Trust

Reaching for Top Quality of Client Service

What goes on behind the scenes

Opening an account, whether it be a registered plan or an investment loan, triggers administrative mechanisms that pertain to account administration, trade settlement, cash & securities custody and bookkeeping. This is supported by a call centre and an effective problem resolution process. When offering products, B2B Trust holds the documentation required by all regulatory authorities. For self-directed accounts, B2B Trust allows its registered plan account holders a variety of investment products which include mutual funds (currently carrying 5,268 mutual and segregated funds), bonds, mortgages, and GICs.

To optimize its electronic processing capabilities, B2B Trust is fully integrated with Clearing and Settlement Service (CSS). Already, 48 major fund companies are using CSS with B2B Trust who has established a thorough testing program in an effort to ensure consistent, timely, and accurate transmission and reconciliation of all files.

A central, albeit standard back office duty, is to create statements with accurate consolidated data that are easy to understand. B2B Trust's self-directed statements are delivered to both financial advisors and their clients. In fact, advisor reporting continues to be one of the cornerstones of B2B Trust's business with IFAs nationwide. B2B Trust standard procedure is to also provide IFAs with a monthly Cash Balance and Foreign Content Holding report. All are available via *www.Natlink.com* as well as in paper format.

The technology behind it all

The information technology and electronic banking platform used by B2B Trust has previously been the focus of attention. Its modular architecture is powerful, flexible and open, and comprises sophisticated payment, settlement, and credit systems.

Internally, B2B Trust also uses a workflow imaging system, based on state-of-the-art imaging technology designed to facilitate the move towards a "paperless" environment in line with industry trends. It provides a central electronic repository for all client correspondence, to and from B2B Trust operations, offers views of work items and statistical reports, creates an audit trail of each document's lifecycle, and archives all documents and histories.

To ensure the secure exchange of personal information over the Internet, B2B Trust uses the same high level of security as the one adopted by Laurentian Bank, namely an encryption level of 128 bits, the most secure encoding system available on the market. Also, strict authentication procedures aimed at preventing fraud make it compulsory for all Internet users of B2B Trust's transactional sites to register in order to be granted a user ID and password. For added security, client cards and PINs are programmed with a card value feature. Finally, B2B Trust clients can access their own accounts, and agents can only access investment accounts held by their own clients.

B2B Trust service: the key to back office success

The advent of new business models and the market's eagerness to embrace the Internet as the vehicle for banking and investment purposes, necessarily reduce the opportunities for human interaction. Nonetheless, clients need from time to time information on their accounts. B2B Trust client service representatives are dedicated professionals trained to handle all client service-related issues. With its back office activities concentrated in Toronto, supported by a regional service bureau located in Montreal, B2B Trust's accomplished client service team upholds among the highest client service quality standards in the field.

Back office activities and client services are both available in English and French. Clients across Canada benefit from the same quality service whichever official language is used.

Since its inception, B2B Trust has implemented major corrective measures across the board to improve its overall processing. Below is a snapshot of the service standards adopted to significantly elevate the calibre of B2B Trust's back office performance.

Standards for mutual funds trade settlement	• Same day processing if instructions are received prior to 3 p.m. • 100% quality control to reduce errors. Current accuracy rate is 99.98%, or 2 errors per 10,000 financial transactions
Standards for investment loans processing	• 24 hours turnaround on approvals • Funding within 24 hours of approval
Standards for self-directed mortgages	• Funding within 48 hours • Same day response to inquiries

The problem resolution strategy also attests to B2B Trust's serious focus on customer service. Problems are acknowledged by fax the day they are received and advisors are informed of the estimated number of days required to resolve a problem. A written confirmation of the resolution is promptly sent by fax.

More often than not, call centres have become the human interface of electronic processing. With this in mind, B2B Trust created an expert team of call centre agents focused on serving clients efficiently and solving problems. Current statistics demonstrate that B2B Trust is determined to perfecting its call centre activities.

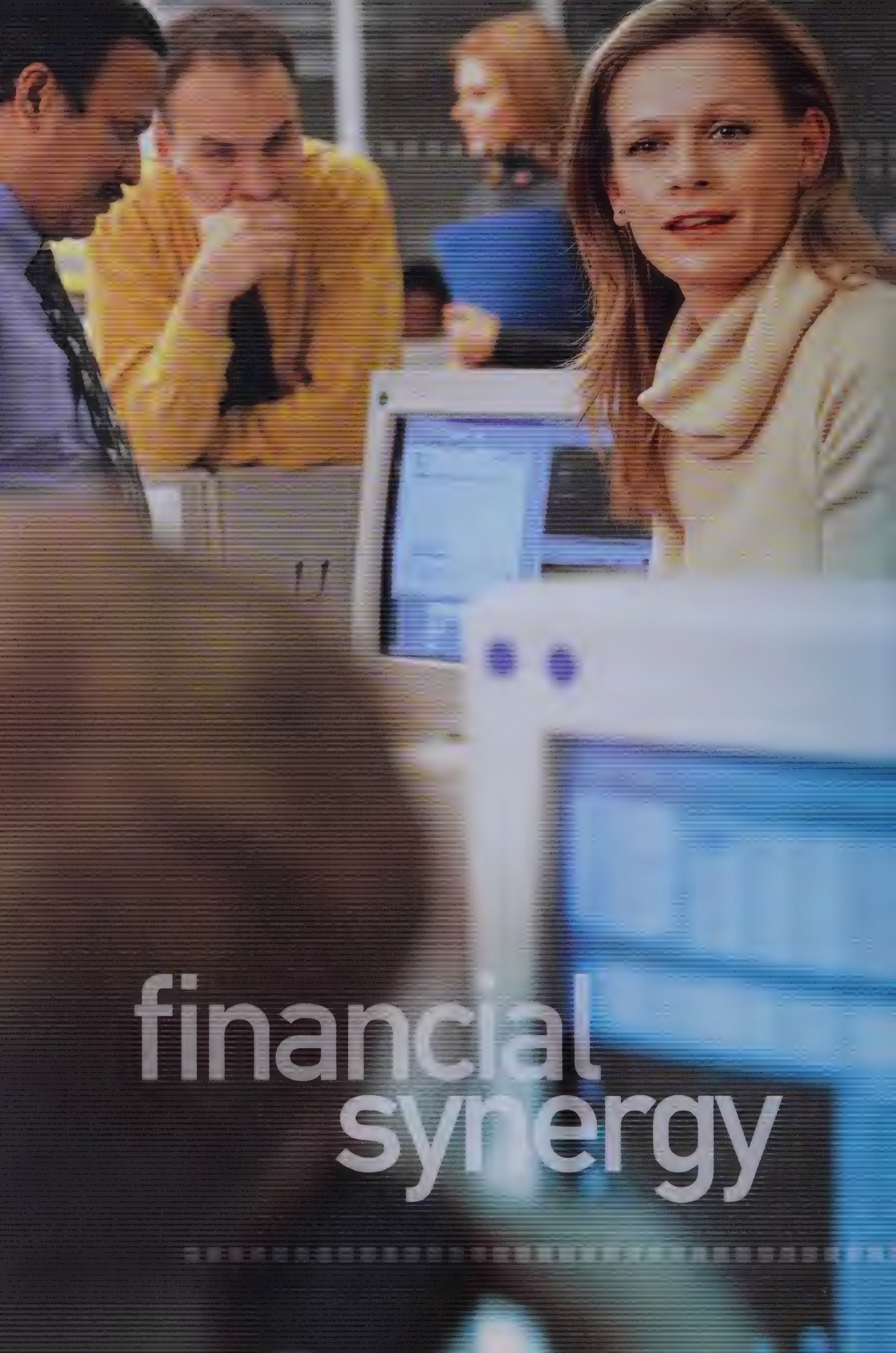
Standards for call centres	• Service Factor 80% (82%, statistics of the last quarter) • Abandon rate 4.0% (3.7%, statistics of the last quarter) • Average time to answer a call is 20 seconds

Since 1998, an independent marketing research firm has conducted regular surveys with randomly selected IFAs to evaluate client service performance. The results attest to B2B Trust's firm commitment to better customer service. In three years, B2B Trust significantly improved its call centre's ability to answer questions and its speed in answering calls, as well as its processing speed and accuracy.

The following chart outlines the significant improvements made in phone service answer speed and abandon rate.

The essence of B2B Trust's "raison d'être" is to provide its partners with the right tools to grow by way of expanding their products and services offering, in turn allowing them to become more valuable to their own customers. Consequently, B2B Trust must be relentless in its quest to attain the high quality service standards sought by IFAs and other partners. Although essential, B2B Trust's award-winning technology would be insufficient without the pivotal role played by outstanding and seasoned client service teams combined with first-rate back office capabilities. Regardless of its business to business nature, providing the best client service will always be at the forefront of B2B Trust's business-building strategy.

Call Centre Service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Management's Discussion and Analysis of Financial Condition and Results of Operations

This section of the annual report presents management's discussion and analysis of financial condition and results of operations for the year ended October 31, 2001. The financial information is presented on the same basis as the financial statements and has been prepared in accordance with Canadian generally accepted accounting principles.

Caution regarding forward-looking statements

This annual report contains forward-looking statements relating, but not limited to, anticipated financial performance, business prospects and strategies of B2B Trust. These statements are subject to random factors and risk factors, several of which are independent of B2B Trust's will, and can have an impact on B2B Trust's operations, performance and results. These factors may impact on the actual results differing from anticipated performance. The factors in question include legislative and regulatory changes, intensification of competition, evolution of technology, financial market conditions and the economic climate in Canada and around the world, along with B2B Trust's success at managing costs related to executing its business plans. Readers are advised not to place disproportionate confidence in the forward-looking statements.

The birth of B2B Trust

This is B2B Trust's first annual report as a public company. B2B Trust came into being through the following steps:

Laurentian Bank acquired from Sun Life Assurance Company of Canada, effective March 1, 2000, all the issued and outstanding shares of the Sun Life Trust Company ("SLT"), as described in note 1 of our audited financial statements.

Laurentian Bank undertook a major reorganization (the "Reorganization"), which was completed on July 4, 2000. The primary objective of the Reorganization was to combine most of the net assets and operations of Laurentian Bank's agency banking division ("Transferred Business") and SLT's customer deposits into one legal entity. The steps involved in the Reorganization and the basis of presentation of the financial statements are described in notes 1 and 2 to our financial statements.

In July 2000, SLT changed its name to B2B Trust.

B2B Trust reorganized its capital in December 2000 reducing the stated capital account maintained for common shares by $60 million and issuing to Laurentian Bank subordinated indebtedness of $60 million.

The transfer of the Transferred Business from Laurentian Bank was finalized in April 2001 resulting in an increase of future income tax assets and contributed surplus by $21.5 million.

B2B Trust paid a special dividend to Laurentian Bank in the amount of $43 million in May 2001.

On June 27, 2001, and on July 20, 2001, B2B Trust completed its IPO of 6,394,000 common shares at a price of $9.00 per share for net proceeds of $53.1 million. Pursuant to this IPO, Laurentian Bank retains a 74.3% ownership stake in B2B Trust.

Table 1 – Quarterly Highlights

(in thousands of dollars, except per share amounts)	2001 Q4	2001 Q3	2001 Q2	2001 Q1	2000[1] Q4	2000[1] Q3
Interest income [2]	$ 36,900	$ 38,966	$ 39,423	$ 41,365	$ 41,262	$ 51,433
Interest expenses	$ 23,212	$ 24,286	$ 25,471	$ 27,065	$ 27,063	$ 34,716
Net interest income [2]	$ 13,688	$ 14,680	$ 13,952	$ 14,300	$ 14,199	$ 16,717
Provision for credit losses	$ 573	$ 75	$ 75	$ 75	$ 50	$ 58
	13,115	**14,605**	**13,877**	**14,225**	14,149	16,659
Non-interest income	$ 4,468	$ 3,974	$ 4,629	$ 3,959	$ 3,259	$ 3,900
Non-interest expenses	$ 8,327	$ 8,529	$ 9,546	$ 8,780	$ 10,345	$ 11,504
Net income before income taxes [2]	**$ 9,256**	**$ 10,050**	**$ 8,960**	**$ 9,404**	$ 7,063	$ 9,055
Income taxes [2]	3,905	5,422	3,687	4,195	3,419	4,323
Net income	**$ 5,351**	**$ 4,628**	**$ 5,273**	**$ 5,209**	$ 3,644	$ 4,732
Per common share						
Average number of common shares outstanding (in thousands)	24,844	20,674	18,450	18,450	18,450	18,450
Net income – basic	$ 0.22	$ 0.22	$ 0.28	$ 0.27	$ 0.20	$ 0.25
Net income – diluted	$ 0.22	$ 0.22	$ 0.28	$ 0.27	$ 0.20	$ 0.25
Book value	$ 6.68	$ 6.46	$ 7.90	$ 6.45	$ 9.42	$ 9.22
Total assets (end of period)	$ 2,481,855	$ 2,412,355	$ 2,359,138	$ 2,301,936	$ 2,293,680	$ 2,332,764
Risk-weighted assets	1,243,600	1,204,472	1,196,103	1,220,868	1,207,374	1,161,156
Tier I capital	165,758	160,393	145,680	118,844	173,621	169,964
Total capital	225,758	220,393	205,680	178,844	173,621	169,964
Capital ratios						
Tier I	13.3 %	13.3 %	12.2 %	9.7 %	14.4 %	14.7 %
Total capital	18.2 %	18.3 %	17.3 %	14.7 %	14.4 %	14.7 %
Financial leverage	11.0 x	10.9 x	11.5 x	12.9 x	13.2 x	13.7 x

[1] *B2B Trust became a reporting Issuer in June 2001.*

[2] *On a taxable equivalent basis.*

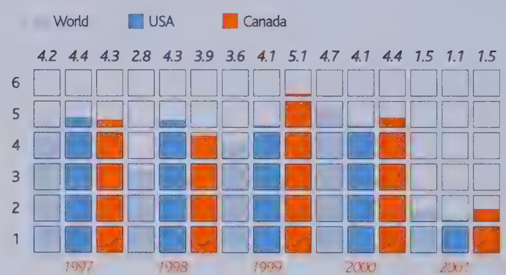
B2B Trust has now a capital structure similar to other Canadian financial institutions more specifically as to its Total capital. Thus, its capital base is positioned for growth with Tier I capital of 13.3% and Total capital of 18.2%.

Economic context

In 2001, the growth of the global economy slowed considerably compared with the previous year, when economic production increased at a sustained rate of 4.7%.

The North American economies have also experienced a significant reduction in the pace of growth due to the US industrial sector actually moving into recession following the severe contraction of the telecom and technology sector. Both the Federal Reserve in the USA and the Bank of Canada have

GDP Growth Rate
(in percent)



initiated a process of easing of monetary conditions to help stimulate their sagging economies.

In parallel to this economic underperformance, the North American stock markets have sustained severe corrections that had some impact on the level of activity related to mutual funds sales.

Summary of financial results

Despite such volatile market conditions during most of the year 2001, B2B Trust's total revenue, net income and return on common shareholders' equity have grown appreciably as the company enlarged its product offering and developed new strategic partnerships.

For the year ended October 31, 2001, B2B Trust reported net income of $20.5 million or $0.99 per common share compared to $15.7 million or $0.85 per common share in 2000. Year over year, net income has increased by 30.6% while net income per common share increased by 16.5%. The reason for the difference in the increase between net income and net income per common share is due to the fact that the average number of common shares outstanding in 2001 increased to 20.6 million from 18.5 million in 2000 reflecting the 2001 IPO of common shares. These results include a $1.1 million net charge reflecting essentially the impact of the Ontario corporate income tax rate reductions on future income tax assets. Excluding the special tax item, net income was $21.6 million or $1.05 per common share compared to $15.7 million or $0.85 per common share in 2000.

Total revenue was up 9.9% at $73.5 million, of which $56.5 million or 77% was net interest income compared to 2000 total revenue of $66.9 million, of which $53.5 million or 80% was net interest income. B2B Trust's net interest margin was 2.44% on a taxable equivalent basis during 2001 compared to 2.52% in 2000. Non-interest income was $17 million compared to $13.5 million in 2000, up 25.9%.

Non-interest expenses were $35.2 million in 2001 compared to $37.4 million in 2000. B2B Trust's efficiency ratio stood at 47.8% (non-interest expenses divided by total revenue) in 2001 compared to 55.7% in 2000.

Return on shareholders' equity was 14.2%, up 27% from 11.2% in 2000. Excluding the special tax item mentioned above, return on shareholders' equity was 15.0% compared to 11.2% in 2000. B2B Trust's book value was $6.68 per common share at October 31, 2001.

Several key factors accounted for these strong increases in performance. Improved asset management, through reduction of liquidities to invest in higher yielding blocks of insured residential mortgages, has helped sustain margins in spite of important drops in interest rates in the North American markets. Net interest margin was further sustained by B2B Trust's reliance on deposits for essentially all its financing needs. Finally, unrelenting efforts have been maintained to reduce costs, achieve better operational efficiency and attain higher quality standards.

Financial results

Net interest income

For 2001, net interest income was $56.5 million up 5.6% compared to $53.5 million in 2000. Interest income was generated by the personal loan portfolio, the insured residential mortgages and the liquidity portfolio (comprised of cash resources and securities). During the year ended October 31, 2001, B2B Trust acquired blocks of insured residential mortgages from Laurentian Bank to improve net interest margin by reducing its liquidities that are in excess of normal liquidity requirements. In total, throughout 2001, B2B Trust has acquired $385 million of insured residential mortgages. These asset portfolios are principally funded through deposits generated by the B2B Trust broker deposit business. This funding source is complemented by the demand deposits held in self-directed registered plans.

Non-interest income

Total non-interest income was $17.0 million, up $3.5 million or 25.9% compared to $13.5 million in 2000. Self-directed registered plans fees were $14.1 million, up 10.2% from $12.8 million in 2000. Other income was $2.8 million, up from $0.6 million in 2000, primarily resulting from gains from treasury activities.

Provision for credit losses

The provision for credit losses was $0.8 million in 2001, or 0.08% of the personal loan portfolio, versus $0.2 million or 0.02% in 2000. This level reflects our best estimate of probable credit losses on the loan portfolio following the severe market corrections throughout the year and especially in the fourth quarter. This increase in provision for credit losses has enabled B2B Trust to absorb the impact of weakening economic conditions in Canada and U.S. that affected the capital markets and the company's personal loan portfolio.

Non-interest expenses

Non-interest expenses, which are largely related to salaries and employee benefits and technology, decreased to $35.2 million compared to $37.4 million in 2000. Salaries and employee benefits totalled $13.1 million compared to $12.9 million in 2000. The number of employees was 239 (on a full time equivalent basis) at October 31, 2001 compared to 225 at October 31, 2000. Premises and equipment expenses totalled $9.3 million compared to $7.3 million in 2000 due primarily to increased space requirements and related infrastructure costs and technology needs. Other expenses were $12.8 million, down $4.4 million or 25.6% from $17.2 million in 2000 due principally to a decrease in customer claims and a $3.0 million charge by Laurentian Bank in connection with the Reorganization recorded in 2000.

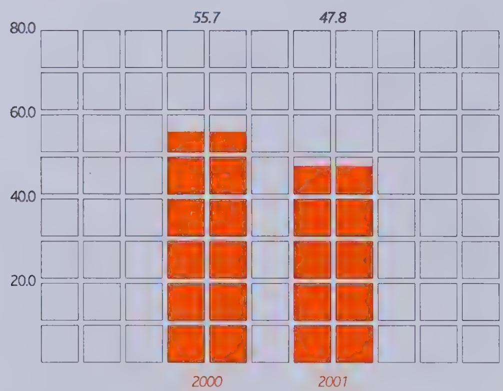
Efficiency ratio

B2B Trust's operational efficiency improved as the efficiency ratio for 2001 decreased to 47.8% from 55.7% in 2000. B2B Trust's efficiency ratio compares favourably to traditional Canadian financial institutions, particularly the major banks.

Balance sheet

Balance sheet assets stood at $2.5 billion at October 31, 2001, an increase of $200 million or 8.7% compared to $2.3 billion at October 31, 2000.

Efficiency Ratio
(in percent)



Non-interest expenses divided by total revenue on a taxable equivalent basis.

Cash resources and insured residential mortgages

Cash resources stood at $222 million in 2001 compared to $378 million in 2000. As a result, the liquidity ratio declined to 18.8% as at October 31, 2001 compared to 22.0% at October 31, 2000. While maintaining liquidity well above prudent levels, this reduction in liquidity has permitted a reallocation of cash resources to higher yielding blocks of insured residential mortgages. At October 31, 2001 insured residential mortgages were at $898 million compared to $686 million at the end of 2000.

Personal loans

Total personal loans were $1,061 million at October 31, 2001 compared to $1,073 million in 2000. Personal loans comprise mutual fund loans and RRSP loans, of which the latter represents only 4% of the total. The mutual fund loan portfolio of $1,023 million consists of 22,000 loans with average balances of $46,000 per loan. These loans are secured by an average of four to five different mutual funds providing good diversification. Mutual funds have to meet B2B Trust selection criteria to be eligible as collateral.

The personal loan volume has remained stable in 2001, showing a $12.0 million decrease from October 31, 2000 or down 1.1%. Indeed, the stock market corrections throughout the year and especially pursuant to the events of September 11 have had a negative impact on mutual funds sales and consequently on investment loan volume growth. The 1998 stock market correction had a similar impact on investment loan activity but as markets subsequently improved, investment loan growth resumed. With more positive stock markets anticipated in 2002 and new opportunities for business from the strategic alliances now in place, a similar resumption of growth should be expected.

Investment Loans Balance Outstanding
(in millions of dollars)

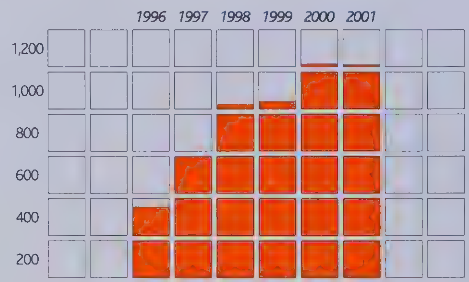


Table 2 – Impaired Loans (as at October 31)

	2001		2000	
(in thousands of dollars)	**Gross**	**Net**	Gross	Net
Impaired loans[1]	$ 1,771	$ 1,153	$ 521	$ 371
General provision		(1,000)		(1,000)
Total – net impaired loans		$ 153		(629)
As a % of total personal loans		0.01 %		(0.06) %

[1] The gross amount of impaired loans is comprised of mutual funds and RRSP loans.

Impaired loans

The economic context and the market correction had a negative impact on credit quality as the depreciated mutual funds pledged as collateral towards mutual fund loans did not always meet the required loan to value ratios.

Gross impaired loans were $1.8 million at October 31, 2001 for an increase of $1.3 million from October 31, 2000. Specific and general provisions increased by $0.5 million from October 31, 2000 to $1.6 million at October 31, 2001.

Net impaired loans were $0.2 million or 0.01% of total personal loans at the end of the year, compared with ($0.6) and (0.06%) at October 31, 2000. At year end, the deficiencies on loans to value ratios had been largely corrected. Given the importance of the correction, the portfolio has performed very well.

Deposits

Total deposits were $2,097 million, an increase of 6.1% compared to $1,976 million in 2000. Demand deposits were $129 million, up $4 million or 3% from $125 million in 2000. Term deposits were $1,969 million, up $118 million or 6.4% from $1,851 million in 2000. Throughout the year, B2B Trust has consolidated its leadership in the independent advisor market.

Assets under administration

Assets under administration related to self-directed plans were $5.3 billion at October 31, 2001 compared to $6.3 billion at October 31, 2000. The reduction in assets under administration was mainly due to decreases in the market value of such assets and the closing of some non-profitable accounts to improve our efficiency.

Capital structure

On December 28, 2000, B2B Trust reorganized its capital structure in the following manner: the stated capital account maintained for common shares was reduced by $60 million while subordinated indebtedness in the amount of $60 million was issued to Laurentian Bank. Prior to the IPO, a special dividend of $43 million was paid to Laurentian Bank and the completion of the transfer of the Transferred Business resulted in an increase to the contributed surplus of $21.5 million (see note 1 of the Financial Statements). In July 2001, B2B Trust completed its IPO of 6,394,000 treasury common shares at $9.00 per share for total net proceeds of $53.1 million. B2B Trust had 24.8 million common shares outstanding and a book value of $6.68 per common share at October 31, 2001.

Total capital of B2B Trust was $225.8 million at October 31, 2001, comprised of $60 million of subordinated indebtedness and $165.8 million of common shareholders' equity, up $52 million or 30% from $174 million in 2000. Regulatory capital is calculated according to the rules of the Bank for International Settlements (BIS). The BIS Tier 1 and Total capital ratios were at 13.3% and 18.2%, respectively at October 31, 2001. These ratios well exceed the respective 7% and 10% minimum standards for a well-capitalized financial institution.

Outlook

After reporting strong results at its first year-end as a public company, B2B Trust is well positioned for growth. The successful completion of the IPO has provided B2B Trust with the capital required to grow the business and pursue its strategic goals. With its strong capital base, niche market strategy and experienced management team in place, B2B Trust is ready to leverage the growth associated with several key new alliances made during the year as well as pursue future partnerships. With these strategic partnerships gaining momentum, the economic recovery forecast for 2002 and the corresponding renewed capital market activity, B2B Trust should continue to experience strong growth in its various business lines.

Table 3 – Risk-Weighted Assets (as at October 31)

(in thousands of dollars)	BIS weighting factor	**2001** Gross notional amount	**2001** Risk-weighted amount	2000 Gross notional amount	2000 Risk-weighted amount
Balance sheets assets					
Cash resources	20 %	$ 221,573	$ 44,315	$ 378,249	$ 75,651
Securities issued or guaranteed by Canada or provinces	0 %	181,761	0	105,456	0
Other securities	100 %	62,988	62,988	21,130	21,130
Mortgage loans					
CMHC-insured	0 %	897,599	0	685,872	0
Personal loans	100 %	1,061,002	1,061,002	1,072,515	1,072,515
Other assets	100 %	56,841	56,841	30,312	30,312
Goodwill	0 %	91	0	146	0
Total – balance sheet assets		**$ 2,481,855**	**$ 1,225,146**	$ 2,293,680	$ 1,199,608
Off-balance sheet items					
Derivative financial instruments			18,454		7,766
Total – risk-weighted assets – BIS			**$ 1,243,600**		$ 1,207,374

Table 4 – Regulatory Capital – BIS (as at October 31)

(in thousands of dollars)	**2001**	2000	Growth 01/00
Common shares and contributed surplus	$ 153,189	$ 164,703	(7) %
Retained earnings	12,660	9,064	40
Less goodwill	(91)	(146)	(38)
Total – Tier I capital (A)	**165,758**	173,621	(5)
Subordinated indebtedness	60,000	—	
Total – Tier II capital	**60,000**	—	
Regulatory capital – BIS (B)	$ 225,758	$ 173,621	30 %
Total risk-weighted assets – BIS (C)	$ 1,243,600	$ 1,207,374	
Tier I BIS capital ratio (A/C)	13.3 %	14.4 %	
Total BIS capital ratio (B/C)	18.2 %	14.4 %	
Financial leverage	11.0 x	13.2 x	

Toward Integrated Risk Management

[illegible]

[illegible]

- [illegible]
- [illegible]

Risk management framework

The integrated risk management framework (the "Framework") constitutes one of B2B Trust's main risk management initiatives. The Framework provides B2B Trust with the tools to:

- identify and evaluate, on an ongoing basis, the major risks that B2B Trust faces, along with their possible repercussions;
- ensure that the risk management process abides by best practices of sound and prudent management;
- establish sound and prudent risk limits and risk management policies; and
- establish and apply efficient internal controls that allow prudent control of these risks.

The Framework is supervised by the Board of Directors and the following Board committees: Executive Committee, Risk Management Committee, Audit Committee, and the Human Resources and Corporate Governance Committee.

Within the structure of the Framework, the Standards of Sound Business and Financial Practices of the Canada Deposit Insurance Corporation, the guidelines of the Office of the Superintendent of Financial Institutions (OSFI), and all laws applicable to the operations of B2B Trust, such as the Trust and Loan Companies Act, are duly observed.

Principal responsibilities related to integrated risk management

Beyond the regular supervision of risks by managers and executives of B2B Trust's lines of business and operating sectors, the Board and the following Committees form an integral part of the risk management process:

Committees of the Board of Directors

Board	• Ensures that B2B Trust has an effective strategic management process that takes into account all relevant risks.
Executive Committee	• Manages B2B Trust's business and affairs as delegated by the Board.
Risk Management Committee	• Ensures that B2B Trust has an adequate risk management process that covers identification, evaluation and management of risks and the formulation of adequate policies pertaining to market risk, capital management, credit risk and operational risk.
Audit Committee	• Ensures that B2B Trust has a control system that fosters appropriate control measures and management of activities and risks.
Human Resources and Corporate Governance Committee	• Ensures that the compensation plan is compatible with the attainment of objectives and prudent management of activities. • Approves rules of conduct and behaviour that take risk into account. • Monitors B2B Trust's corporate governance practices.

Internal management committees

Management Committee	• Manages B2B Trust's affairs. • Evaluates and approves important risk management policies to ensure that risks are managed in keeping with the policies. • Examines and approves new products.
Credit Committee	• Defines parameters for granting credit and monitors their application. • Authorizes loans within established limits. • Reviews impaired loans. • Reviews bad debts and credit losses.
Compliance Committee	• Ensures that B2B Trust has applied an approach to ensure compliance with applicable legislation and regulatory provisions. • Establishes and reviews policies to manage regulatory risk, including compliance with control procedures.
Operations Committee	• Monitors the operational side of B2B Trust's business, including compliance issues that may impact upon B2B Trust's operations.
Asset and Liability Management Committee	• Ensures compliance with operating parameters related to liquidity and investment management, along with interest rate and foreign exchange risk. • Recommends hedge strategies to maintain the risk level within limits approved by the Board of Directors. • Recommends positioning strategies for loan and liquidity (or balance sheet) portfolios to adjust to market movements. • Develops financial management and treasury policies.
Finance Committee	• Reviews the current economic environment. • Tracks changes in volumes, product pricing and competition. • Approves pricing policies, product pricing and product campaigns. • Establishes service charges and rate charts.

Nature of risk

B2B Trust has grouped risks associated with its operations into four principal categories: market risk management, capital management, credit risk management and operational risk management.

Market risk management

Market risk is the risk of financial loss due to movements in interest and foreign exchange rates, as well as bond and equity prices for balance sheet and off-balance sheet financial instruments. The level of market risk to which B2B Trust is exposed varies constantly, according to market conditions and predicted swings in market prices and market trends.

For risk management purposes, B2B Trust is ultimately responsible for the application of its Market Risk Management Policies. However, B2B Trust has mandated Laurentian Bank, through a servicing agreement, to ensure execution and monitoring of all capital market operations. Furthermore, Laurentian Bank acts in an oversight role in the application of B2B Trust's Market Risk Management Policies. Indeed, Laurentian Bank must ascertain on a consolidated basis to comply with all rules and regulations pertaining to market risk management activities.

B2B Trust has established policies and limits to enable it to oversee and control exposure to market risks arising from its asset and liability management activities. Detailed reports on risk and monitoring of the limits are produced daily.

Structural risk

Structural risk is the potential negative impact of interest rate movements on B2B Trust's results and economic value. The primary sources of structural risk to which B2B Trust is typically exposed are repricing risk, yield curve risk, basis risk and optionality. Repricing risk occurs when there are differences in assets, liabilities and off-balance sheet instruments where maturity or modification date changes occur in a given period. These gaps result mainly from clients' maturity preferences. Yield curve risk affects the market value of portfolios and occurs when the rate of return does not match a given return yield curve. Basis risk occurs when differentials between various index prices change. Optionality stems from the impact of interest rate fluctuations and the degree of volatility on the market value of options held in

B2B Trust's portfolios. These options, called "embedded," enable clients to modify their loan and deposit maturity profile. The most common embedded options are the reimbursement characteristics of certain term deposit products and the prepayment options of certain loan products.

Both the dynamic management and disciplined control of structural risk contribute to maintaining B2B Trust's profitability and to preserving common shareholders' equity. The objective of portfolio management is to achieve an equilibrium between the increase in interest income and the reduction of the negative impact of interest rate movements. To attain these objectives, the risk profile of the portfolio is adjusted by means of interest rate swaps and other derivative instruments, taking into account the projected yield curve of interest rate variations and the current level of risk assumed.

Structural risk is managed by the Asset and Liability Management Committee of B2B Trust in accordance with relative ceilings of economic value and interest rate risk. Risk ceilings are calculated based on immediate and sustained parallel movements of 100 basis points of rates for all maturities. Economic value risk measures the net negative impact on the present value of balance sheet and off-balance sheet assets and liabilities. Interest income risk measures the negative impact on net interest income from interest rate movements over the next twelve months. Portfolio positions are reviewed periodically by the Asset and Liability Management Committee, which is in charge of establishing B2B Trust's positioning with regard to anticipated interest rate movements and recommending hedging of all undesirable or unforeseen interest rate risk.

Foreign exchange risk

Foreign exchange risk is linked to the possible negative impact of exchange rate variations on B2B Trust's results and economic value.

Foreign exchange positions may result from products and services offered in currencies other than Canadian dollars or from arbitrage activities. Risk control therefore implies that noncovered positions be maintained and managed to take advantage of short-term market fluctuations. Hence, the setting of global limits reviewed on an annual basis, specifying the maximum risk B2B Trust is ready to assume considering its activities.

Liquidity risk

Liquidity management provides B2B Trust with the assurance that sufficient funds will be available to meet its commitments. Liquidity risk is the risk of loss if B2B Trust does not have sufficient cash resources, when required, to meet all its cash flow obligations, whether for balance sheet or off-balance sheet instruments. Efficient liquidity management is essential to maintaining market confidence and protecting B2B Trust's capital. It is an integral part of asset and liability management. B2B Trust monitors cash resources daily and applies a prudent liquidity management policy that enables it to meet its cash requirements at all times. It pays particular attention to deposit and loan maturities, along with funding availability and demand, while abiding by the regulatory requirements governing it.

Capital management

The capital of B2B Trust is comprised of common shareholders' equity, retained earnings and debenture indebtedness. B2B Trust's capital represents an essential factor in assessing its stability and security in relation to the risks associated with its activities. Capital management contributes to B2B Trust's profitability, as it is allocated to key sectors for which defined profitability objectives and criteria have been established. B2B Trust's aim is to maintain an optimal level of capital to support its activities while generating an attractive and competitive return for its shareholders, in relation to industry standards and its specific risk profile. B2B Trust's policy is to maintain its statutory capital ratios at a level comparable to that of the industry and consistent with regulatory requirements as defined by the OSFI.

Credit risk management

Credit risk is the risk of a financial loss occurring because of the inability or refusal of a counterparty to fully honour the contractual or financial obligations of a balance sheet or off-balance sheet financial instrument. This risk results from being party to a financial operation with a counterparty. The expression "counterparty" encompasses an issuer, a debtor, a borrower, a broker and an underwriter.

Credit risk management is independent of operations, thus protecting the independence and integrity of risk evaluation. The Risk Management Committee of B2B Trust's Board of Directors oversees the management of credit risk. It is assisted by an internal Credit Committee at B2B Trust that is responsible for the operational supervision of overall credit risk management. B2B Trust, pursuant to a service agreement, has retained the services of Laurentian Bank with respect to the analysis, approval and recovery of certain loans and management of credit systems.

The credit risk policies adopted by B2B Trust provide for appropriate risk assessment and the setting of lending rates. These policies cover the approval of credit applications by the line of authority concerned, attributing risk ratings, managing of impaired loans, establishing of general and specific provisions, pricing based on risk, and an environmental policy. Under the credit limit rules, no loan to a single borrower may exceed $1.5 million, unless otherwise approved by the Risk Management Committee of the Board of Directors.

The authorization process for counterparties and loans is highly centralized. B2B Trust uses state-of-the-art software systems to support the decision-making process with regard to applications for personal credit.

B2B Trust ensures a rigorous and systematic follow-up of its loan portfolio both in terms of quality and quantity by applying different mechanisms and policies; this includes systematically reviewing various categories of loans and collateral and analysing pricing. Each month, Management reviews impaired loans and follows up on loans where payment is past due. As well, the collection process is centralized and is based on specialized expertise.

Operational risk management

Operational risk results from insufficiency or failure attributable to procedures, personnel, internal systems or external events.

The compliance department of B2B Trust, in conjunction with the operational risk management department of Laurentian Bank, strives to support operational risk management: it develops appropriate policies, gathers data on operating losses, assists managers in identifying operating risks and puts in place control measures and procedures.

Outsourcing risk

Outsourcing is an important strategy that enables B2B Trust to remain competitive both in terms of costs and the diversification of products it offers. B2B Trust can choose to outsource activities in which it has not attained the critical level of use, and in which some partners are more efficient and profitable. As part of its outsourcing policy, it ensures that its partners operate according to sound management practices and usually reserves the right to audit these practices.

The first outsourcing policy was adopted by the Board of Directors in 2001.

Financial Statements

Management's Responsibility for Financial Information

The financial statements of B2B Trust were prepared by management which is responsible for the integrity and fairness of the information presented. The financial statements were prepared in accordance with Canadian generally accepted accounting principles, including the accounting requirements specified by the Office of the Superintendent of Financial Institutions Canada ("OSFI"). The financial statements reflect amounts which must, of necessity, be based on the best estimates and judgment of management with appropriate consideration as to materiality. The financial information presented elsewhere in this annual report is consistent with that in the financial statements.

In discharging its responsibility for the fairness and integrity of the financial information and the supporting accounting systems:

- Management maintains the necessary internal control system designed to provide assurance that transactions are properly authorized, assets are safeguarded and proper accounting records are maintained. The controls include quality standards in hiring and training of employees, written policies, authorized limits for managers, procedure manuals, a corporate code of conduct and appropriate management information systems.
- The system of internal controls is further supported by a compliance function, which ensures that B2B Trust and its employees comply with all financial regulatory requirements, as well as by an integrated operational risk management function that ensures proper risk control, related documentation and the measurement of the financial impact of risks.
- Internal auditors periodically evaluate various aspects of B2B Trust's operations and make recommendations to management for improvements in controls.

Every year, OSFI makes such examinations and inquiries as deemed necessary to satisfy itself that B2B Trust is in a sound financial position and that the provisions of the Trust and Loans Companies Act (Canada) as well as the Standards of sound business and financial practices of the Canada Deposit Insurance Corporation are being duly observed.

Ernst & Young LLP, independent auditors, appointed by the shareholders examine B2B Trust's financial statements and their report follows.

The internal auditors, the external auditors and OSFI meet periodically with the Audit Committee, in the presence or absence of management, to discuss all aspects of their duties and matters arising therefrom.

The Board of Directors is responsible for reviewing and approving B2B Trust's financial information included in the annual report. It oversees the manner in which management discharges its responsibilities for the presentation and preparation of financial statements, maintenance of appropriate internal controls, management of risks and assessment of significant and related party transactions through its Audit Committee and Risk Management Committee.

Henri-Paul Rousseau
President and Chief Executive Officer

Bernard Piché
Co-Chief Operating Officer
and Chief Financial Officer

Toronto, Canada,
December 3, 2001

Auditors' Report
to the Shareholders of B2B Trust

We have audited the balance sheets of B2B Trust as at October 31, 2001 and 2000 and the statements of income, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of B2B Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of B2B Trust as at October 31, 2001 and 2000 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles, including the accounting requirements specified by the Office of the Superintendent of Financial Institutions Canada.

Ernst & Young LLP
Chartered Accountants

Toronto, Canada,
December 3, 2001

Balance Sheets

As at October 31
(in thousands of dollars)

	Notes	2001	2000
ASSETS			
Cash resources		$ 221,573	$ 378,249
Securities	3	244,749	126,586
Loans	4		
Personal		$ 1,061,002	$ 1,072,515
Residential mortgages		897,599	685,872
Loans		**$ 1,958,601**	$ 1,758,387
Fixed assets	5	2,874	2,681
Other assets	6	54,058	27,777
		$ 2,481,855	$ 2,293,680
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Deposits	7	$ 2,097,462	$ 1,975,976
Other liabilities	8	158,544	143,937
		$ 2,256,006	$ 2,119,913
Subordinated indebtedness	9	**60,000**	—
Shareholders' equity	1 and 2		
Common shares	10	$ 131,640	$ 134,094
Contributed surplus		21,549	30,609
Retained earnings		12,660	9,064
		$ 165,849	$ 173,767
		$ 2,481,855	$ 2,293,680

[Related party transactions – see note 14]
See accompanying notes.

On behalf of the Board:

Chairman

President and Chief Executive Officer

Statements of Income

For the years ended October 31
(in thousands of dollars, except per share amounts)

	Notes	2001	2000
Interest income			
Loans		$ 137,442	$ 126,526
Deposits		12,653	16,886
Securities		6,394	7,531
		$ 156,489	$ 150,943
Interest expense			
Deposits		$ 96,692	$ 70,488
Subordinated indebtedness	9	3,342	—
Funding by Laurentian Bank		—	26,986
		$ 100,034	$ 97,474
Net interest income		$ 56,455	$ 53,469
Provision for credit losses	4	798	200
		$ 55,657	$ 53,269
Non-interest income			
Self-directed registered plan fees		$ 14,134	$ 12,847
Deposits		139	55
Other		2,757	554
		$ 17,030	$ 13,456
		$ 72,687	$ 66,725
Non-interest expenses			
Salaries and employee benefits		$ 13,114	$ 12,861
Premises and equipment		9,276	7,283
Other		12,792	17,226
		$ 35,182	$ 37,370
Income before income taxes		$ 37,505	$ 29,355
Income taxes	12	17,044	13,666
Net income		$ 20,461	$ 15,689
Average number of common shares outstanding (in thousands)	13	20,623	18,450
Basic and fully diluted net income per share (in dollars)	13	$ 0.99	$ 0.85

[Related party transactions – see note 14]

See accompanying notes.

Statements of Changes in Shareholders' Equity

For the years ended October 31
(in thousands of dollars)

	Notes	2001	2000
Common shares			
Balance at beginning of year		$ 134,094	$ —
Reduction in stated capital	10	(60,000)	—
Reorganization adjustment	1 and 2	—	134,094
Issued during the year	10	57,546	—
Balance at end of year		**$ 131,640**	$ 134,094
Contributed surplus			
Balance at beginning of year		$ 30,609	$ —
Reorganization adjustment	1 and 2	—	27,734
Related party transactions adjustment	1	21,549	2,875
Dividend	10	(30,609)	—
Balance at end of year		**$ 21,549**	$ 30,609
Retained earnings	1 and 2		
Balance at beginning of year		$ 9,064	$ 87,863
Net income		20,461	15,689
Dividend	10	(12,391)	—
Withdrawals by Laurentian Bank, net		—	(94,488)
Issuance costs, net of income taxes of $2,418		(4,474)	—
Balance at end of year		**$ 12,660**	$ 9,064
Total shareholders' equity		**$ 165,849**	$ 173,767

See accompanying notes.

Statements of Cash Flows

For the years ended October 31
(in thousands of dollars)

	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 20,461	$ 15,689
Adjustments to determine net cash flows from operating activities:		
Provision for credit losses	798	200
Depreciation	593	370
Future income tax expense	9,325	6,200
Net (gain) loss on sale of securities	(967)	152
Change in accrued interest payable	19,447	40,514
Net change in other assets and liabilities	(18,897)	43,645
Cash flows from operating activities	**$ 30,760**	$ 106,770
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of subordinated indebtedness	$ 60,000	$ —
Reduction in stated capital	(60,000)	—
Issuance of common shares, net of issue costs	53,072	—
Dividend	(43,000)	—
Net change in deposits	121,486	160,365
Transfer of Sun Life Trust Company loans to Laurentian Bank	—	1,673,491
Sun Life Trust Company bank indebtedness assumed	—	(76,695)
Net change in funding by Laurentian Bank	—	(642,579)
Withdrawals by Laurentian Bank, net	—	(94,488)
Cash flows from financing activities	**$ 131,558**	$ 1,020,094
CASH FLOWS FROM INVESTING ACTIVITIES		
Net change in securities	$ (117,196)	$ 134,626
Net change in personal loans	10,715	(206,270)
Net change in residential mortgages	(211,727)	(676,589)
Acquisitions of fixed assets	(786)	(382)
Cash flows used in investing activities	**$ (318,994)**	$ (748,615)
Net change in cash and cash equivalents	$ (156,676)	$ 378,249
Cash and cash equivalents at beginning of year	378,249	—
Cash and cash equivalents at end of year	**$ 221,573**	$ 378,249
Supplemental disclosure relating to cash flows:		
Interest paid during the year	**$ 80,587**	$ 56,960
Income taxes paid during the year	**$ 3,475**	$ 3,807

See accompanying notes.

Notes to the Financial Statements

October 31, 2001 and 2000
[All tabular amounts are in thousands of dollars, unless otherwise indicated.]

1 Organization and description of the business

Pursuant to a share purchase agreement with Sun Life Assurance Company of Canada, Laurentian Bank acquired, effective March 1, 2000, all the issued and outstanding shares of the Sun Life Trust Company (SLT). Prior to its acquisition by Laurentian Bank, SLT had divested certain of its assets as well as its trust operations.

Following its acquisition of SLT, Laurentian Bank undertook a major reorganization of its agency banking division, which was completed by July 4, 2000 (the "Reorganization"). The primary objective of the Reorganization was to combine most of the net assets and operations of the agency banking division with SLT's customer deposits into one legal entity. As part of the Reorganization, SLT changed its name to B2B Trust.

All the assets, liabilities and operations of the agency banking division, except for its credit card, credit insurance and term deposit operations, (the "Transferred Business") were carved out and transferred to B2B Trust as part of the Reorganization.

B2B Trust's operations are comprised primarily of the provision of financial products and services to independent financial advisors across Canada, principally financial planners, investment advisors and deposit brokers, so that they can better serve their clients. Personal loans represent demand and term loans granted to individuals for the purchase of mutual funds held within registered or non-registered investment accounts. Loans relating to mutual funds held within non-registered plans are secured by the mutual funds purchased. Deposits include term deposits as well as the cash balances in individuals' self-directed RRSP and self-directed RRIF accounts. B2B Trust earns fee income on these self-directed accounts.

Prior to the Reorganization, the operations of the Transferred Business were funded by the Laurentian Bank. This funding was subsequently replaced by deposits originated by B2B Trust.

The operations of the Transferred Business up to the date of the Reorganization included certain allocated balances and transactions on the basis described below:

1. Laurentian Bank's net investment in the Transferred Business represented a deemed regulatory capital equivalent to 10% of the risk-weighted assets of the Transferred Business. This amount is included with retained earnings for purposes of preparing the financial statements.

2. Funding by Laurentian Bank was established as the excess of the total assets of the Transferred Business over deposits, other liabilities and Laurentian Bank's net investment. Interest expense was based on wholesale market rates best reflecting the nature and maturities of the funded net assets.

3. Allocated costs from Laurentian Bank charged to earnings and included in non-interest expense, are composed of costs relating to technology and processing, deposit insurance, capital taxes and general overhead, including human resources, internal audit, administration, and legal services. These costs have been allocated on the basis of estimated usage and at Laurentian Bank's average cost for such services.

In the opinion of management, the methods and assumptions used to allocate such expenses are reasonable for the purposes of preparing the financial statements.

Reorganization

The principal steps in the Reorganization were as follows:

1. SLT transferred its loan portfolio of approximately $1.7 billion to Laurentian Bank at its net book value. SLT's cash resources, securities and customer deposits were not transferred to Laurentian Bank. The carrying value of these remaining assets and liabilities give effect to Laurentian Bank's fair value allocation of the purchase price described in note 2.

2. Laurentian Bank transferred the Transferred Business to SLT at its net book value of approximately $0.9 billion. The consideration paid by SLT included cash and 333 common shares (after giving effect to the consolidation of common shares on a three-for-one basis) of a nominal value. Management filed a rollover election in accordance with Section 85 of the *Income Tax Act* (Canada) for this transfer at the end of April 2001. The future income tax asset and contributed surplus increased by $21,549,000 as a result of this transfer. The future income tax asset balance as at October 31, 2001 amounts to $16,956,000.

3. Laurentian Bank transferred a portfolio of CMHC-insured residential mortgages to SLT at its net book value of approximately $0.7 billion.

The difference between cash received and the net book value of the assets transferred resulted in an increase of $2,875,000 in contributed surplus, net of income taxes of $2,275,000.

2 Significant accounting policies

The financial statements of B2B Trust have been prepared by management in accordance with Canadian generally accepted accounting principles, including the accounting requirements specified by the Office of the Superintendent of Financial Institutions Canada (OSFI). The significant accounting policies followed in the preparation of these financial statements are summarized below:

Use of estimates in the preparation of financial statements

The preparation of the financial statements of B2B Trust requires management to make estimates and assumptions, mainly concerning values, which affect reported amounts of assets, liabilities, net income and related disclosures. Actual results could differ from those estimates.

2 Significant accounting policies (continued)

Basis of presentation

The B2B Trust's financial statements include the accounts of the Transferred Business, described in note 1, using the continuity of interests method. These financial statements also give effect to the push-down in B2B Trust of Laurentian Bank's fair value adjustments included in the SLT purchase equation as described below. Accordingly, the financial statements are prepared on the following basis:

a. The balance sheet as at October 31, 2000 has been prepared to give effect to the transfer of the Transferred Business to B2B Trust, as described in note 1, as if it had always been part of B2B Trust.

b. The balance sheet as at October 31, 2000 also gives effect to the push-down of Laurentian Bank's fair value adjustments included in the SLT purchase price on March 1, 2000.

c. The statement of income for the year ended October 31, 2000 has been prepared to give effect to the transfer of the Transferred Business to B2B Trust, as described in note 1, as if it had always been part of B2B Trust and the push-down of the fair value adjustments included in the SLT purchase price on March 1, 2000.

On March 1, 2000, Laurentian Bank acquired all the issued and outstanding common shares of SLT for a cash consideration of $161,828,000. The acquisition was recorded using the purchase method. As a result of the push-down of the purchase equation fair value adjustments, SLT's retained earnings at March 1, 2000 totalling $30,507,000, less the net purchase equation fair value adjustment of $2,773,000, were transferred to contributed surplus, resulting in a net contributed surplus of $27,734,000.

The net fair value adjustments, totaling $2,773,000, were allocated to the related assets and liabilities of SLT. Most of these assets were transferred to Laurentian Bank during the Reorganization. The net fair value adjustments pertaining to the remaining assets and liabilities of SLT consist of essentially a $608,000 reduction in securities and a $3,428,000 increase in customer deposits.

Translation of foreign currencies

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the prevailing year-end rates. Income and expenses are translated at the monthly average exchange rates. Gains and losses resulting from the translation of foreign currencies are included in non-interest income.

Securities

Fixed-term securities are recorded at amortized cost. Other securities are recorded at cost, except for those used for hedging purposes, which are accounted for on a basis consistent with the related financial instrument. Gains and losses realized on disposal of securities and write-downs to reflect other than temporary impairments in value are included in non-interest income. Interest income earned, amortization of premiums and discounts as well as dividends received are included in interest income.

Loans

Loans are stated net of the allowance for credit losses and any unearned income.

Loans are classified as impaired when, in management's opinion, there is no longer reasonable assurance of the timely collection of the full amount of principal and interest. Generally, loans on which repayment of principal or payment of interest is contractually 90 days in arrears are considered impaired unless they are fully secured and in the process of collection. All loans which are 180 days past due are classified as impaired except when they are guaranteed or insured by the Canadian government, the provinces or a Canadian government agency; such loans are classified as impaired if the loan is in arrears for 365 days.

The property rights of assets acquired in settlement of a borrower's loan are also included in impaired loans at the lower of the loan balance and its net realizable value.

When loans are classified as impaired, the interest is no longer accrued. The carrying value of these loans are reduced to their estimated realizable value by a total or partial write-off of the loan and/or establishing a provision for credit losses.

Subsequent recoveries of interest on impaired loans are recognized in income only if there is no specific provision, and if, in management's opinion, there is no reasonable doubt as to the ultimate collectibility of the total principal.

An impaired loan cannot return to an accrual status unless all principal and interest payments are up-to-date and management has no reasonable doubt as to the recovery of the loan.

Where a portion of a loan is written off and the remaining balance is restructured, the new loan is carried on an accrual basis when there is no longer any reasonable doubt regarding the collectibility of principal and interest, and payments are not 90 days past due.

Allowance for credit losses

B2B Trust maintains an account of allowance for credit losses, which it considers the best possible estimate to absorb probable credit losses of its loan portfolio. This account is increased by the provision for credit losses charged to income and reduced by write-offs net of recoveries.

Specific provisions are established on a loan-by-loan basis to absorb losses on all impaired accounts which have been identified as a result of B2B Trust's regular review of its loan portfolio. These provisions are established by estimating the amounts recoverable in relation to the loan amounts; estimated future cash flows are discounted at the effective interest rate inherent in the loan. When these amounts cannot be reasonably estimated, the fair value of the underlying collateral or the observable market price of the loans are used to establish the provisions.

2 Significant accounting policies (continued)

In addition to specific allowances, management establishes a general allowance to absorb credit losses where prudent assessment of past experience and existing economic and portfolio conditions indicates that losses have occurred, but where such losses cannot yet be specifically identified.

Write-offs are recorded after all restructuring or collection activities have taken place and the possibility of further recovery is considered to be remote.

Fixed assets

Fixed assets consist of computer equipment and software which are carried at cost less accumulated depreciation. Depreciation is calculated using primarily the straight-line method over the estimated useful lives of the assets estimated at 5 years.

Fee income

Fees on self-directed accounts are recorded as income as the service is provided.

Employee future benefits

B2B Trust's employees benefit from defined benefit pension plans maintained by Laurentian Bank. One of these pension plans has a defined-contribution portion. Funding is provided by both the plan sponsors and the members of the plans. Under the defined benefit plans, retired employees are eligible for benefits, based on length of service and the average salary at retirement.

An actuarial valuations of the pension plans are obtained by Laurentian Bank to determine the present value of the accrued pension benefits. There is no separate actuarial valuation for B2B Trust. B2B Trust's contributions, as determined by the actuary, to the plans are charged to earnings.

On January 1, 2001, B2B Trust introduced a defined-contribution portion for certain participants. Plan members who were active at this date could elect to remain in the defined-benefit portion or participate in the defined-contribution portion for future years of participation. Members who join the plan after January 1, 2001 are required to take part in the defined-contribution portion. The expense corresponds to the contribution that B2B Trust is required to make during the year.

Derivative financial instruments

B2B Trust uses derivatives to manage its exposure to interest rates risks, to service the needs of customers and to benefit from market trends. The most frequently used derivative products are interest rate swaps and equity derivatives.

Derivative products are used to manage B2B Trust's own exposure, the realized gains and losses are deferred and amortized to net interest income over the life of the hedged items.

Income taxes

B2B Trust uses the liability method of tax allocation and reports, in other assets, the future income tax assets resulting from temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Prior to the Reorganization, B2B Trust's operations were included in the income tax returns filed by Laurentian Bank. The Transferred Business determined its provision for income taxes as if it had filed separate income tax returns.

Statements of cash flows

Cash and cash equivalents consist of demand deposits with other financial institutions, bankers' acceptances and bank term deposits which, at the date of acquisition, have a term to maturity of three months or less.

Net income per common share

The Canadian Institute of Chartered Accountants issued a new accounting standard for calculating and presenting earnings per share which B2B Trust adopted as of fiscal 2001. The major change arising from the application of this new standard consists in assuming, at the time of calculating net income per common share on a fully diluted basis, that the proceeds will be used for the purchase of common shares at their average price for the year. The former standard assumed that the proceeds were invested in obtaining a theoretical net income.

The retroactive adoption of the new accounting standard has no effect on the basic and fully diluted net income per common share.

B2B Trust calculates net income per common share by dividing net income for the year by the weighted average number of common shares outstanding for the year.

Comparative figures

Certain comparative figures were reclassified to conform to the presentation adopted for the current year.

3 Securities

[a] Maturity schedule at year-end

	Within 1 year	1 to 5 years	Over 5 years	No stated maturity	2001 Total	2000 Total
Issued or guaranteed by Canada	$ 98,140	$ 41,213	$ —	$ —	$ 139,353	$ 105,456
Issued or guaranteed by provinces	—	42,408	—	—	42,408	—
Other debt securities	—	50,881	—	—	50,881	5,403
Common shares	—	—	—	12,107	12,107	15,727
	$ 98,140	$ 134,502	$ —	$ 12,107	$ 244,749	$ 126,586

The term to maturity included in the schedule above is based on the contractual maturity date of the security.

[b] Unrealized gains and losses

2001	Book value	Gross unrealized gains	Gross unrealized losses	Estimated market value
Issued or guaranteed by Canada	$ 139,353	$ 1,272	$ —	$ 140,625
Issued or guaranteed by provinces	42,408	94	—	42,502
Other debt securities	50,881	1,252	—	52,133
Common shares	12,107	—	—	12,107
	$ 244,749	$ 2,618	$ —	$ 247,367

2000	Book value	Gross unrealized gains	Gross unrealized losses	Estimated market value
Issued or guaranteed by Canada	$ 105,456	$ 68	$ 14	$ 105,510
Other debt securities	5,403	93	—	5,496
Common shares	15,727	—	2	15,725
	$ 126,586	$ 161	$ 16	$ 126,731

4 Impaired loans and allowance for credit losses

[a] Impaired loans

	2001	2000
Gross amount	$ 1,771	$ 521
Specific provisions	(618)	(150)
	$ 1,153	$ 371
General provision	(1,000)	$ (1,000)
Net impaired loans	$ 153	$ (629)

The gross amount of impaired loans is comprised of personal loans.

4 Impaired loans and allowance for credit losses (continued)

[b] Allowance for credit losses

	2001	2000
Balance at beginning of year	$ 1,150	$ 1,150
Provision for credit losses charged to earnings	798	200
Write-offs	(330)	(200)
Balance at end of year	**$ 1,618**	$ 1,150

5 Fixed assets

	2001			2000
	Cost	Accumulated depreciation	Net book value	Net book value
Computer equipment	$ 1,179	$ 461	$ 718	$ 717
Software	2,783	627	2,156	1,964
	$ 3,962	**$ 1,088**	**$ 2,874**	$ 2,681

6 Other assets

	2001	2000
Future income tax assets [note 12]	$ 27,636	$ 4,422
Accrued interest receivable	9,683	8,149
Accounts receivable	9,140	9,146
Other	7,599	6,060
	$ 54,058	$ 27,777

7 Deposits

	2001	2000
Demand and notice	$ 128,888	$ 125,162
Term	1,968,574	1,850,814
	$ 2,097,462	$ 1,975,976

8 Other liabilities

	2001	2000
Accrued interest payable	$ 120,105	$ 100,658
Cheques and other items in transit, net	16,755	35,178
Other [note 14]	21,684	8,101
	$ 158,544	$ 143,937

9 Subordinated indebtedness

The subordinated indebtedness in the amount of $60,000,000 was issued to Laurentian Bank. This indebtedness is a direct unsecured obligation of B2B Trust and is subordinated in right of payment to the claims of depositors of B2B Trust. Any repurchase or cancellation of subordinated indebtedness must be approved by OSFI. The subordinated indebtedness bears interest of 6.60%, which rate will be revised in December 2005 and set at the 90 day bankers' acceptance rate plus 1.25%. This indebtedness matures in December 2010 and is redeemable by B2B Trust at par as of December 2005.

10 Capital stock

Authorized:

Common shares

An unlimited number of Common Shares without par value.

Preferred shares

An unlimited number of non-voting First Preference Shares, without par value, issuable in series for which the Board of Directors shall, before any shares of a series are issued, fix the number of shares that will form the series.

An unlimited number of non-voting Second Preference Shares, without par value, issuable in series for which the Board of Directors shall, before any shares of a series are issued, fix the number of shares that will form the series.

Issued and outstanding

	Number of shares (in units)		Amount	
	2001	2000	**2001**	2000
Common shares [notes 1 and 2]	**24,844,355**	18,450,355	**$ 131,640**	$ 134,094

Share consolidation

On February 5, 2001, the common shares issued and outstanding were consolidated on a three-for-one basis, thus reducing common shares issued and outstanding prior to the initial public offering ("IPO") from 55,351,066 to 18,450,355. All references in these financial statements to shares outstanding and per share amounts have been adjusted to reflect this share consolidation on a retroactive basis.

Capital reorganization

On December 28, 2000, B2B Trust reorganized its capital. As a result the stated capital account maintained for common shares was reduced by $60,000,000 which was paid to Laurentian Bank. In addition, subordinated indebtedness in the amount of $60,000,000 was issued to Laurentian Bank. [note 9]

Dividend

On May 31, 2001, B2B Trust paid a special dividend to Laurentian Bank in the amount of $43,000,000. The payment reduced contributed surplus by an amount of $30,609,000 and retained earnings by an amount of $12,391,000.

Initial public offering

On June 27, 2001 and on July 20, 2001, B2B Trust completed its IPO of 6,394,000 common shares in Canada at a price of $9.00 per share representing total gross proceeds of $57,546,000 which, after deduction of the underwriters' commission and issue expenses, contributed net proceeds of $53,072,000 to B2B Trust.

Stock options

Pursuant to a share purchase option plan created during the year, options are granted to directors, executives and key employees as well as other service providers, including Laurentian Bank directors and officers, for the purchase of common shares at prices not less than the market price of such shares immediately prior to the grant date. When options are exercised, the proceeds are credited to common shares.

The right to exercise the options is acquired gradually over a maximum period of five years and the vested options can be exercised at all times up to 10 years after they have been granted.

As at October 31, 2001, 1,845,035 common shares were reserved for issuance under the Stock Option Plan, representing 10% of all the issued and outstanding common shares prior to the closing of the IPO.

10 Capital stock (continued)

The following table shows the number of stock options outstanding as at October 31:

	2001	
	Number of options (in units)	**Weighted average exercise price per option**
Outstanding at beginning of year	—	$ —
Granted at the closing of the IPO	938,500	9.00
Granted subsequently	77,000	8.37
Cancelled	(50,500)	9.00
Outstanding at end of year	**965,000**	**$ 8.95**
Exerciseable at end of year	**—**	**$ —**

The weighted average remaining contractual life of options outstanding as at October 31, 2001 is 9.6 years.

11 Employee future benefits

Expenses related to pension plans prior to the Reorganization are based on a percentage of employees' eligible salaries and, after the Reorganization, are based on actual contributions to the plan by B2B Trust. The employee future benefits expense, included in salaries and employee benefits, is $361,000 for 2001 ($350,000 in 2000).

12 Income taxes

Significant components of the B2B Trust's future income tax assets and liabilities are as follows:

	2001	2000
Intangible assets – Reorganization [note 1]	$ 16,956	$ —
Loss carryforwards [note 14]	8,572	—
Recoverable minimum tax of financial institutions	1,850	1,373
Deposits	562	1,047
Loans	311	694
Allowance for credit losses	403	432
Fixed assets	(745)	(238)
Other temporary differences	(273)	1,114
Future income tax assets, net	**$ 27,636**	$ 4,422

12 Income taxes (continued)

Significant components of the provision for income taxes are as follows:

Statement of income	2001	2000
Current income tax expense	$ 7,719	$ 7,466
Tax rate reductions	1,436	145
Future income tax expense	7,889	6,055
	$ 17,044	$ 13,666

Statement of shareholders' equity	2001	2000
Tax on dividends paid on preferred shares of the parent company	$ 501	$ —
Compensation from the parent company	(501)	—
Common share issue cost	(2,418)	—
	$ (2,418)	$ —
Future income tax benefit	(2,418)	—
	$ (2,418)	$ —

In accordance with tax legislation and as a result of an agreement with its parent company, an amount of tax related to dividends paid on preferred shares of the parent company along with the related tax deduction has been transferred during the year by the parent company to B2B Trust. Pursuant to this agreement a compensation of $501,000 has been received from Laurentian Bank.

The reconciliation of income tax computed at the statutory tax rates to income tax expense is:

	2001		2000	
Income taxes at statutory rate	$ 15,482	41.3 %	$ 12,990	44.3 %
Increase (decrease) resulting from:				
Large corporations tax	225	0.6	595	2.0
Tax rate reductions	1,436	3.8	145	0.5
Other, net	(99)	(0.3)	(64)	(0.2)
Income taxes in earnings/effective tax rate	**$ 17,044**	**45.4 %**	$ 13,666	46.6 %

13 Net income per common share

Stock options

The options to purchase 965,000 common shares outstanding at the end of 2001 were not included in the computation of fully diluted net income per share because the options' exercise price was greater than the average market price of the common shares during fiscal 2001 and, accordingly, are anti-dilutive.

Charitable warrant

B2B Trust has issued a share purchase warrant (the "Charitable Warrant") to the Hospital for Sick Children Foundation ("HSCF") for no consideration. The Charitable Warrant is not transferable, may be exercised at any time on or before ten years after the grant, and entitles HSCF to purchase 5,000 common shares in the capital of B2B Trust at a purchase price of $9.00 per share. The share purchase warrant was not taken into account in the computation of the net income per common share on a fully diluted basis since the exercise price of the warrant exceeded the average market price of B2B Trust's common shares during the year and, accordingly, is anti-dilutive.

14 Related party transactions

In addition to the Reorganization described in note 1 and other transactions described elsewhere in these financial statements, B2B Trust has carried out transactions, in the normal course of its activities, with its parent company. Transactions and balances included in the financial statements of B2B Trust, measured at the exchange amount, consist of the following:

	2001	2000
LAURENTIAN BANK		
Income Statement		
Interest income		
Deposits	$ 12,653	$ 16,788
Securities	279	—
Interest income on swaps (included with interest expense)	14,264	1,761
Non-interest expenses		
Premises and equipment	5,820	4,346
Other	3,698	6,794
Assets		
Cash resources	$ 221,573	$ 377,796
Securities	50,881	—
Other assets	5,452	810
Liabilities		
Other liabilities	$ 5,740	$ 4,052

Servicing agreement

B2B Trust has entered into servicing agreement with Laurentian Bank for various services. The primary services to be provided by Laurentian Bank include transaction settlement, agency banking services, technology systems and services, risk management services, finance and accounting services, internal audit services, legal and compliance services, human resources, real estate and purchasing services and tax planning and reporting. The term of the servicing agreement is for a period of five (5) years which commenced on July 1, 2000 and will be automatically renewed on a year to year basis. These transactions, which are included in the above table, are carried out in the normal course of business and measured at the exchange amount.

Purchase of residential mortgages

During the year ended October 31, 2001, B2B Trust acquired from Laurentian Bank, in the normal course of business, CMHC-insured residential mortgages at the exchange amount of approximately $385 million.

Funding by Laurentian Bank

The interest cost charged to earnings in relation to funding by Laurentian Bank is based on wholesale market rates best reflecting the nature and maturities of the net assets financed. The average effective interest rate was 5.69% for the eight-month period ended June 30, 2000, at which time the funding was reimbursed.

Acquisition of LBC Capital Inc.

On October 31, 2001, B2B Trust acquired all the issued and outstanding common shares of LBC Capital Inc. from Laurentian Bank at its net book value of $8,572,000. On October 31, 2001 LBC Capital Inc. was liquidated in B2B Trust. The purchase price is payable no later than December 31, 2002.

15 Financial instruments

[a] Fair value

The amounts that follow present the fair value of on- and off-balance sheet financial instruments based on the valuation methods and assumptions as set out below.

Fair value represents the amount at which a financial instrument could be exchanged between willing parties. Quoted market prices are not available for a significant portion of B2B Trust's financial instruments. In such cases, the fair values presented are estimates derived using present value or other valuation techniques and may not be indicative of the net realizable value.

	2001			2000		
(in millions of dollars)	**Book value**	**Fair value**	**Variance favorable (unfavorable)**	Book value	Fair value	Variance favorable (unfavorable)
Assets						
Securities	$ 245	$ 247	$ 2	$ 127	$ 127	$ —
Loans	1,959	1,998	39	1,758	1,749	(9)
Liabilities						
Deposits	$ 2,097	$ 2,190	$ (93)	$ 1,976	$ 1,982	$ (6)
Subordinated indebtedness	$ 60	$ 65	$ (5)	$ —	$ —	$ —
Derivative financial instruments	$ 1	$ 71	$ 70	$ 4	$ 24	$ 20

The fair value of items which are short term in nature or contain variable rate features is considered to be equal to book value. These items are not listed above except for variable rate personal loans and demand deposits which, are included respectively in loans and deposits.

The fair value of securities is based on quoted market prices or, if not available, is estimated using quoted market prices of similar investments.

The fair value of loans, deposits and subordinated indebtedness is estimated by discounting cash flows using market interest rates.

The fair value of derivative financial instruments is based on quoted market prices or dealer quotes. Otherwise, fair value is estimated on the basis of pricing models, quoted prices of instruments with similar characteristics, or discounted cash flows.

[b] Derivative financial instruments

In the normal course of business, B2B Trust enters into various contracts and commitments in order to protect itself against the risk of fluctuations in interest rates. The various derivative financial instruments listed in the table below are defined as follows:

Interest rate swaps involve the exchange of fixed and floating interest payment obligations based on a predetermined notional amount for a specific period of time.

B2B Trust also transacts equity derivatives which serve as hedges for index-linked deposits.

						2001
Notional amount (in thousands of dollars)	**Within 1 year**	**1 to 5 years**	**Over 5 years**	**Total**	**Fair value favorable**	**Fair value unfavorable**
Interest rate swaps[1]	$ 315,000	$ 1,155,000	$ 30,000	$ 1,500,000	$ 62,169	$ (10,528)
Equity derivatives	47,700	18,000	—	65,700	19,575	—
	$ 362,700	**$ 1,173,000**	**$ 30,000**	**$ 1,565,700**	**$ 81,744**	**$ (10,528)**

						2000
Notional amount (in thousands of dollars)	Within 1 year	1 to 5 years	Over 5 years	Total	Fair value favorable	Fair value unfavorable
Interest rate swaps[1]	$ 300,000	$ 950,000	$ 60,000	$ 1,310,000	$ 151	$ (4,166)
Equity derivatives	—	65,700	—	65,700	27,845	—
	$ 300,000	$ 1,015,700	$ 60,000	$ 1,375,700	$ 27,996	$ (4,166)

[1] *All interest rate swaps as at October 31, 2001 and 2000 are with Laurentian Bank.*

15 Financial instruments (continued)

[c] Interest rate risk

The following table gives the detailed maturity dates and average effective rate of the on- and off-balance sheet instruments, excluding equity derivatives, of B2B Trust:

								2001
	Floating	0 to 3 months	Over 3 months to 1 year	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years	Non-interest sensitive	Total
Assets								
Cash resources and securities	$ 1,097	$ 118,001	$ 93,166	$ 172,570	$ 81,488	$ —	$ —	$ 466,322
Rate	2.3 %	3.4 %	4.2 %	3.8 %	4.9 %	—	—	4.0 %
Residential mortgages	—	71,048	170,549	425,785	201,307	25,686	3,224	897,599
Rate	—	6.1 %	6.2 %	6.4 %	7.8 %	7.4 %	—	6.7 %
Personal loans	1,002,447	—	—	60,173	—	—	(1,618)	1,061,002
Rate	5.9 %	—	—	7.3 %	—	—	—	6.0 %
Fixed assets and other assets	—	19,898	—	—	—	—	37,034	56,932
Total	**$1,003,544**	**$ 208,947**	**$ 263,715**	**$ 658,528**	**$ 282,795**	**$ 25,686**	**$ 38,640**	**$2,481,855**
Rate	**5.9 %**	**4.0 %**	**5.5 %**	**5.8 %**	**7.0 %**	**7.4 %**	**—**	**5.7 %**
Liabilities and equity								
Demand and notice deposits	$ 1,210	$ 3,176	$ 9,529	$ 57,184	$ 57,184	$ 605	$ —	$ 128,888
Rate	—	0.2 %	0.2 %	0.2 %	0.2 %	—	—	0.2 %
Term deposits	—	168,144	484,207	788,920	527,303	—	—	1,968,574
Rate	—	4.6 %	4.8 %	5.3 %	6.3 %	—	—	5.4 %
Other liabilities	20,312	37,479	59,560	24,872	16,024	—	297	158,544
Rate	—	0.6 %	1.2 %	5.5 %	6.2 %	—	—	2.1 %
Subordinated indebtedness and shareholders' equity	—	—	—	—	60,000	—	165,849	225,849
Rate	—	—	—	—	6.6 %	—	—	1.8 %
Total	**$ 21,522**	**$ 208,799**	**$ 553,296**	**$ 870,976**	**$ 660,511**	**$ 605**	**$ 166,146**	**$2,481,855**
Rate	**— %**	**3.8 %**	**4.3 %**	**5.0 %**	**5.8 %**	**— %**	**— %**	**4.6 %**
Swaps, nets	**$ —**	**$(1,080,000)**	**$ 315,000**	**$ 575,000**	**$ 220,000**	**$ (30,000)**	**$ —**	**$ —**
Sensitivity gap	**$ 982,022**	**$(1,079,852)**	**$ 25,419**	**$ 362,552**	**$ (157,716)**	**$ (4,919)**	**$ (127,506)**	**$ —**
Cumulative gap	**$ 982,022**	**$ (97,830)**	**$ (72,411)**	**$ 290,141**	**$ 132,425**	**$ 127,506**	**$ —**	**$ —**

15 Financial instruments (continued)

2000

	Floating	0 to 3 months	Over 3 months to 1 year	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years	Non-interest sensitive	Total
Assets								
Cash resources and securities	$ 348	$ 297,386	$ 175,000	$ 10,970	$ 21,131	$ —	$ —	$ 504,835
Rate	0.0 %	5.5 %	5.9 %	5.4 %	1.5 %	—	—	5.5 %
Residential mortgages	—	50,362	129,782	229,504	221,579	53,602	1,043	685,872
Rate	—	6.2 %	7.0 %	6.4 %	6.8 %	7.5 %	—	6.7 %
Personal loans	1,073,665	—	—	—	—	—	(1,150)	1,072,515
Rate	8.3 %	—	—	—	—	—	—	8.3 %
Fixed assets and other assets	—	18,983	—	—	—	—	11,475	30,458
Total	$1,074,013	$ 366,731	$ 304,782	$ 240,474	$ 242,710	$ 53,602	$ 11,368	$2,293,680
Rate	8.3 %	5.3 %	6.4 %	6.4 %	6.3 %	7.5 %	—	7.1 %
Liabilities and equity								
Demand and notice deposits	$ 1,285	$ 6,913	$ 20,738	$ 47,582	$ 48,644	$ —	$ —	$ 125,162
Rate	0.1 %	0.1 %	0.1 %	0.1 %	0.1 %	—	—	0.1 %
Term deposits	—	150,812	462,826	669,594	567,582	—	—	1,850,814
Rate	—	5.2 %	5.7 %	5.2 %	6.3 %	—	—	5.7 %
Other liabilities	1,738	21,847	54,485	14,151	14,286	—	37,430	143,937
Rate	—	0.6 %	0.9 %	5.6 %	6.1 %	—	—	1.6 %
Shareholder's equity	—	—	—	—	—	—	173,767	173,767
Rate	—	—	—	—	—	—	—	—
Total	$ 3,023	$ 179,572	$ 538,049	$ 731,327	$ 630,512	$ —	$ 211,197	$2,293,680
Rate	0.1 %	4.4 %	5.0 %	4.9 %	5.8 %	—	—	4.7 %
Swaps, nets	—	(1,190,000)	300,000	500,000	450,000	(60,000)	—	—
Sensitivity gap	1,070,990	(1,002,841)	66,733	9,147	62,198	(6,398)	(199,829)	—
Cumulative gap	$1,070,990	$ 68,149	$ 134,882	$ 144,029	$ 206,227	$ 199,829	$ —	$ —

Assets and liabilities are shown at the earlier of the date of maturity or contractual reevaluation while taking into consideration reimbursements or estimated prepayments, except for the following:

- Loans and deposits for which the interest rates are not indexed on a specific rate and which can be non-sensitive to variations of market rates are classified based on the historical evolution of their sensitivity.
- Securities held for asset liability management purposes are classified based on the maturity of the related liability.

16 Commitments and contingencies

[a] Operating leases

B2B Trust has entered into lease agreements with Laurentian Bank for office space. Future minimum payments with respect to these leases, as at October 31, 2001, are as follows:

2002	$	759
2003	$	688
2004	$	684
2005	$	663
2006	$	414
Thereafter	$	907
	$	**4,115**

[b] Litigation

B2B Trust is involved in various pending legal actions which arise in the normal course of business. Management considers that the aggregate contingent liability resulting from these actions is not significant.

Corporate Governance

The Company's internal governance policies and practices are aimed at providing the Board with the authority, autonomy and information required to assume its responsibilities with regard to the stewardship of the Company. The corporate governance policies and practices provide for their regular review and assessments by the various committees of the Board.

The Company's corporate governance practices and policies address the various components of the Toronto Stock Exchange Guidelines for effective corporate governance (the "TSE Guidelines"). A comparison of the Company's practices with the TSE Guidelines can be found in the Management Proxy Circular prepared in connection with the fiscal 2001 Annual Meeting.

Role of the Board of Directors

The Board oversees the affairs of the Company. It is closely involved in major decisions that affect the Company's development, such as strategic planning approval of the annual budget and approval of financial statements and risk management. It generally assumes its role directly or via its committees.

Role of the Board Committees

The Board has established four committees, to which it has delegated particular responsibilities and functions. Their composition takes into account applicable legislative requirements and the nature of their mandate. All the Board committees are composed of a majority of non-affiliated directors. They all report directly to the Board on their work.

The Executive Committee exercises the powers conferred on it by the Board with respect to the management of the Company's affairs.

This committee consists of five (5) directors:

Henri-Paul Rousseau, Chair
Jacques G. Auger
Jean Bazin
Ronald Corey
Jonathan I. Wener

The Audit Committee reviews the quarterly and annual financial statements of the Company as well as management's discussion and analysis of financial condition and results of operations and the press releases that form part of the quarterly and annual financial disclosure, the implementation by management of appropriate control measures and any financial matter that it deems appropriate or that is referred to it by the Board. It is specifically responsible for supervising the Company's internal audit function. In discharging their responsibilities, the Committee members meet, together or separately, with the officers and the external auditors to discuss financial matters within their mandate.

This committee consists of five (5) directors:

Jon K. Grant, Chair
Jacques G. Auger
Robert Cardinal
Georges Hébert
Margot Northey

The Human Resources and Corporate Governance Committee reviews and approves senior executive compensation, assesses the performance of the President and Chief Executive Officer and the members of the senior management team. It reviews the administration of short-term and long-term incentive programs, approves the annual salary policy, periodically reviews the Company's organizational structure and approves the appointment of the executive officers. Its corporate governance mandate includes implementing and monitoring the Company's corporate governance policies and practices. It ensures the proper functioning of the Board and of its committees, and reviews their composition and nominations. It is this committee that proposes the appointment of new directors and evaluates current directors. Among its other duties, it reviews the compensation of the directors in relation to their responsibilities, ensures that shareholders are properly informed of the affairs of the Company and deals with any major disagreement between the Company and its shareholders.

This committee consists of five (5) directors:

Ronald Corey, Chair
Jean Bazin
Georges Hébert
Suzanne Masson
Jonathan I. Wener

The Risk Management Committee has three main functions: conduct review, credit review and monitoring of conflicts of interest. In its conduct review function it monitors the application of methods for reviewing transactions with individuals or organizations related to the Company. The Committee monitors procedures for disclosure to customers of information concerning charges and of procedures for examining customer complaints. Annually, it reviews the Code of Ethics governing the Company's employees and officers. In its credit function, the Committee reviews the Company's credit policies and procedures and ensures that the highest standards of quality are maintained. It also reviews and approves loans and advances exceeding the limit established by the Board, including loans and advances to employees and officers. In its monitoring function, the Committee reviews conflicts of interest situations between the Company and its parent Laurentian Bank, as well as conflicts related to officers with dual functions. It also reviews significant agreements between the Company and any affiliated companies.

This committee consists of five (5) directors:

Jacques G. Auger, Chair
Jean Bazin
Suzanne Masson
Roy Palmer
Nancy Smith

Board of Directors' Members

(1, 2, 4) **Jacques G. Auger (2000)**
Nuns' Island, Verdun QC
President
BOMBARDIER AEROSPACE, DEFENCE SERVICES

(1, 3, 4) **Jean Bazin (2000)**
Nuns' Island, Verdun QC
Partner
FRASER MILNER CASGRAIN

(2) **Robert Cardinal (2000)**
Brossard QC
Senior Executive Vice-President and Chief Financial Officer
LAURENTIAN BANK

(1, 3) **Ronald Corey (2000)**
Westmount QC
President
RONALD COREY GROUPE CONSEIL LTÉE

(2) **Jon K. Grant (2000)**
Peterborough ON
Chairman of the Board
CCL INDUSTRIES INC.

(2, 3) **Georges Hébert (2000)**
Town of Mount-Royal QC
Business consultant

Veronica S. Maidman (2000)
Toronto ON
Chair, Advisory council
EQUIFAX CANADA INC.

(3, 4) **Suzanne Masson (2000)**
St-Lambert QC
Executive Vice-President, Human Resources, Corporate Affairs and Secretary
LAURENTIAN BANK

(2) **Margot Northey (2000)**
Kingston ON
Dean of Queen's School of Business
QUEEN'S UNIVERSITY

(4) **Roy Palmer (2001)**
Westmount QC
Corporate director

(1) **Henri-Paul Rousseau (2000)**
Outremont QC
President and Chief Executive Officer
LAURENTIAN BANK

(4) **Nancy Smith (2001)**
Toronto ON
Chair and Chief Executive Officer
THE NEXTMEDIA COMPANY LIMITED

(1, 3) **Jonathan I. Wener (2000)**
Hampstead QC
Chairman of the Board
CANDEREL MANAGEMENT INC.

(1) Member of the Executive Committee
(2) Member of the Audit Committee
(3) Member of the Human Resources and Corporate Governance Committee
(4) Member of the Risk Management Committee

Management Committee Members

Henri-Paul Rousseau
President and Chief Executive Officer

Michel Pelletier
Co-Chief Operating Officer

Bernard Piché
Co-Chief Operating Officer and Chief Financial Officer

André Scott
Executive Vice-President, Administration and Customer Service

David Erickson
Vice-President, Business Solutions

Ronald Hodges
Vice-President, Marketing and Institutional Alliances

David E. Sharpe
Vice-President, Risk Management & Compliance and Assistant Secretary

Al Spadaro
Vice-President, Financial Advisors

Diane Lafresnaye
Assistant Vice-President, Finance

Eva Stamadianos
Assistant Vice-President, Human Resources

Lorraine Pilon
Secretary

Shareholder Information

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Investors and Analysts

Investors and analysts may contact the Co-Chief Operating and Chief Financial Officer of B2B Trust at Head Office or by calling (416) 865-5900.

Media

Journalists may contact the Public Affairs and Communications Department by calling (416) 865-5952.

Change of Address and Inquiries

Shareholders should notify the Transfer Agent of a change of address. Inquiries or requests may be directed to the Secretary's Office by calling (416) 865-5952.

Stock Symbol

The common shares are listed on the Toronto Stock Exchange under the stock symbol BBT.

This Annual Report was produced by the Public Affairs and Communications department of Laurentian Bank.

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